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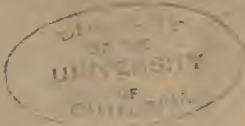
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THE DRIFT TOWARD GOVERNMENT OWNERSHIP  
OF RAILWAYS

BY

B. L. WINCHELL

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# THE DRIFT TOWARD GOVERNMENT OWNERSHIP OF RAILWAYS

BY B. L. WINCHELL

I

THERE is an unmistakable drift toward government ownership of railways in the United States. This tendency is probably most apparent to those closely identified with railway affairs; but it is also evident to many who are interested in the railway business chiefly, or only, as observers and students of economic, industrial, and political problems.

In the first place, there has been for some years a rather unsteady but certain increase in the number of socialists in the country; and those who thus favor public ownership and management of all of the means of both production and distribution must be counted in with those others who favor public acquisition of the principal means of distribution. There has also been an increase in the number of those who advocate public ownership of all public utilities, of which steam railways are the largest. Finally, there has been a mighty growth in the number who favor very stringent regulation of railways, and who have succeeded in getting this policy adopted. The last-named class, which is much the largest, may finally turn the scale for public ownership. For its members now expect much from regulation—lower rates, better service, smaller railway dividends, complete elimination of traffic discriminations, shorter hours and higher wages for

labor, higher railway taxes, fewer accidents, and all the rest.

There is, however, a limit to the amount along these lines that any railway policy, whether that of unregulated private management, regulated private management, or public management, can accomplish. It is to be feared that public regulation, however submissive to it the railways may be, will accomplish less than many expect; and that, disappointed, these will join the ranks of those who believe in government ownership.

Furthermore, the opposition to public ownership from the men who, in past years, have had the strongest incentive to oppose it, namely, the officers and stockholders of railways, may decrease—nay, is decreasing—just when the tendency toward it becomes strongest. Whether rightly or wrongly, many railway officers and stockholders feel that unless present tendencies of regulation are checked, the time will soon come when, regardless of what their attitude as citizens may or should be, they will have no good reason, as railway officers and stockholders, for opposing public ownership.

The main thing about any employment that makes it attractive to strong men is the opportunity, under conditions affording much freedom of action, to exercise their best initiative, put forth their best energy, and thereby achieve the best results of which they

are capable; and many railway officers feel that the ever-increasing restrictions that regulation is putting on railway management are depriving them of this opportunity. The public has small conception how the hundreds of federal and state laws regulating railways, passed in recent years, and the innumerable orders that are constantly being issued by the Interstate Commerce Commission and the forty-two state commissions, tie the hands of railway officers. Doubtless much of the regulation is needed; perhaps all of it is well intended: but the public has unfortunately tried to adopt a policy of regulation that will prevent railway officers from doing anything that they ought not to do, and has overlooked the fact that to hedge men about with restrictions of this sort may, at the same time, so narrow their freedom of action as to make it impossible for them to do many things that they ought to do.

Those who have bought railway stock — as distinguished from those who have really loaned their money to the roads by buying their bonds — have done so in order that, while incurring the risk of business loss if the venture did not pay, they might get a business profit if it did pay; and the tendency of regulation to limit and reduce railway profits is making many investors wonder if they would not be better off financially if government ownership should be adopted. With an outstanding capitalization of less than \$63,000 a mile, or lower than that of the railways of any other first-rate country in the world, the railways of the United States have never been able in any year to pay as much as 4 per cent on both their bonds and their stock. In 1910 their average interest was 3.79 per cent and their average dividends 3.64 per cent. It is in the face of this fact that the state and

national governments are pursuing a policy under which net earnings are declining instead of increasing. In the calendar year 1907, net earnings per mile were \$3,359; in 1908, following the panic of 1907, they were \$2,869; in 1909, \$3,441; in 1910, \$3,344; in 1911, \$3,152. Now, railway stockholders know that no government has ever, in acquiring railways, paid an improperly low price for them; they feel confident that the government of the United States will not be the first to set the example of railway confiscation; and if they could get their money out of railways they could invest it elsewhere with more chance of large profits.

In these circumstances, the time may soon come when the only persons who will oppose public ownership will be those who will do so solely from a disinterested belief that it would be a bad thing for the republic, and we all know that disinterested zeal is seldom active, strenuous, and effective.

A change to government ownership in the United States, whether the results were bad or good, would be a revolution of stupendous proportions. The mileage of the railways of this country, amounting to more than 240,000 miles, is greater than the combined mileages of all the railways now owned by governments in the world. The net capitalization of our railways is about fourteen and a half billions of dollars; they certainly could not be acquired for less than this; the purchase price, very likely, would be nearer twenty billions; and all this immense sum would be added to the national debt. The 1,700,000 employees would all become government employees, with what political consequences no one can foretell. We should arouse ourselves to a clear recognition of present tendencies, cease drifting, and determine by investigation, thought, and discussion whether government ownership

will or will not be the best policy for us as a people; and then, having decided this, we should deliberately and carefully either prepare for the change, or work out and adopt a railway policy that will steer us clear of it.

## II

The first question to be squarely faced and settled is: ~~Is government ownership desirable or not?~~ To discuss that question adequately within the limits of a magazine article would be impossible. Some of the most important points may, however, be touched upon.

The largest state-owned railway system in the world is that of Germany, and its results are those most frequently cited by advocates of government ownership as arguments for that policy. It is said that the German state system yields large profits to the government, that its rates are reasonable and non-discriminatory, and that its service is good. There is no question that, on the whole, the German state lines are quite well-managed. But there is one vital difference between Germany and the United States that must be taken into account. Germany is a monarchy; the United States is a democracy; and Charles Francis Adams, long chairman of the Railroad Commission of Massachusetts, thirty years ago forcibly expressed the reasons why the results gained by public management of railways under one form of government cannot, without much qualification and many reservations, be used as an argument for the adoption of the same policy in a country having a different form of government.

'In applying results drawn from the experience of one country to problems which present themselves in another,' said Mr. Adams, 'the difference of social and political habit and educa-

tion should ever be borne in mind. Because in the countries of continental Europe the state can and does hold close relations, amounting even to ownership, with the railroads, it does not follow that the same course could be successfully pursued in England or in America. The former nations are by political habit administrative, the latter are parliamentary. In other words, France and Germany are essentially executive in their governmental systems, while England and America are legislative. Now, the executive may design, construct, or operate a railroad; the legislative never can. A country, therefore, with a weak or unstable executive, or a crude and imperfect civil service, should accept with caution results achieved under a government of bureaus.'

As W. M. Acworth, the English railway economist, has said, 'Prussia is Prussia, with a government in effect autocratic, with a civil service with a strong *esprit de corps*, and permeated with old traditions, leading them to regard themselves as servants of the king, rather than as candidates for popular favor. I am inclined to think,' Mr. Acworth adds, 'that the effect of the evidence is that the further a government departs from autocracy and develops in the direction of democracy the less successful it is likely to be in the direct management of railroads.'

Most of the employees of the German lines are ex-soldiers who not only have the soldier's training and traditions, but might at any time be called into military service. Suppose that they should strike. They might at once be ordered into the army and then detailed, as soldiers, to return to their posts on the railways; and if they refused they might be tried by court-martial and shot. The employees of the German state lines are not allowed to organize labor-unions such as the



employees of the privately-owned railways of Great Britain and the United States have. They may form local associations to carry on discussion and formulate complaints and petitions as to wages and conditions of employment; but a superior officer is always present at these meetings. They can present their complaints or demands to Parliament only through their officers, and political activity on their part to secure anything the railway administration does not want to grant, is unknown, and would not be tolerated.

These facts illustrate the differences between the conditions under which government management is carried on in such a country as Germany, with a monarchical government, and those under which it would be carried on under a democratic government such as ours. Can any one believe that if government ownership were adopted here the powerful railway brotherhoods would be abolished, and political activity by employees to secure such wages and conditions of employment as they wanted would be prohibited? If we could expect this to be done, it would be, to the minds of railway employees, a powerful argument against government ownership; and if it were not done, experience indicates that the result would be the bidding, by our politicians, for the votes of the great army of railway employees, by means which would be ruinous to the railway service, and bad for government, for the public, and in the long run for the employees. No American citizen doubts that democratic government is the best form of government for protecting the personal and property rights of the citizen; but one may be a very patriotic citizen and yet be sure that democratic government is a very bad form for managing large industrial concerns.

However, while all must concede

that, in many ways, the German lines are well managed, this is far from conceding that they are managed better, from the standpoint of the interests of the public, than are those of the United States under private ownership. It is true that their net earnings, amounting in 1910 to \$229,368,256, are paid into the government treasury; but after deducting from this amount interest at  $3\frac{1}{2}$  per cent on the cost of construction there is left only \$86,607,000. Professor H. G. Moulton, of the University of Chicago, in his recent book, *Waterways versus Railways*, places the clear profit from the Prussian railways at only about \$57,000,000. But these figures are *less than the annual taxes paid by the railways of the United States*, amounting in 1911 to about \$110,000,000; and, of course, the clear profits, after interest, earned by state railways are no less and no more a contribution to the support of the government than are the taxes paid by privately-owned railways.

Furthermore, if the charges to operating expenses for maintenance on the German railways were as generous in proportion as are the similar charges of American railways, their *apparent* net earnings would be less. It is a general practice of state railways, of which those of Germany have not been innocent, to present as good a showing as possible by making inadequate charges to maintenance, and then to charge to capital account new equipment really acquired to maintain the property, thereby swelling the capital account and the amount of interest that has to be paid on it. While this makes an apparently good showing for the management, it is the opposite of good for the public in the long run, and was largely responsible for an increase of \$14,000 per mile in the capital cost of the German lines between 1900 and 1910.

The freight rates charged by the German railways in order to make as good a financial showing as they do, are higher than those of the railways of the United States, averaging 14 mills per ton per mile, as compared with 7.5 mills in this country. Their average passenger rate is lower, being only 9 mills, as compared with 19.3 mills in the United States, but the lower average in Germany is due to the fact that a large proportion of passengers there take the poor and low-priced third-class service. For the first- and second-class services, which are comparable with the service in this country, the rates are, first-class, 3.45 cents per mile; second-class, 2.55 cents. It must also be remembered that these rates are charged on railways in a country where the wages of labor, which determine both the cost of labor to the railways, and the amount that the people who work for wages can afford to pay for transportation, are much less than in the United States. For example, the average annual wage of railway employees in the United States is \$673, while in Germany it is but \$388. Therefore, on the average, a day's labor will buy almost as much passenger transportation in the United States as it will in Germany — although the density of passenger traffic is about four times as great there as it is here — and it will buy three-and-a-half times as much freight transportation here as in Germany. This is probably the best test of whether the railway rates of a country are high or low, for in the long run the wage-earner, as consumer, pays freight as well as passenger rates, and it shows that the rates of the German lines are relatively much higher than those of the railways of the United States.

To summarize, then: the privately-owned railways of the United States, while paying their interest and very moderate dividends, pay wages to their

employees much higher than those of the German lines, charge rates much lower, and at the same time turn into the public treasury in the way of taxes an annual sum greatly exceeding the profit derived by the German public from its railways.

### III

Hardly of less interest than the railways of Germany to the student of state management are the railways of Australia. In Australia government is as near pure democracy as anywhere in the world; and here the troubles that characterize public management of industry under democratic government were long experienced. The location of new lines was often determined by log-rolling in the provincial parliaments rather than by consideration of the public needs. The wages of employees were determined rather by the relative importance of the men as voters than according to economic considerations. In consequence of these things most of the lines were long unprofitable.

In 1903 the labor situation came to an extraordinary crisis in Victoria. Parliament at last refusing to yield to their demands, the employees struck. The government won. The question of completely disfranchising the railway employees was considered. There was at last passed a law forbidding employees of the state, including those on railways, under heavy penalties, from taking any part whatever in politics except to vote for members of Parliament. Their unions were practically broken up. To free the railway management from political interference, legislation also has been passed in all the provinces placing the control of operation completely in the hands of permanent non-political railway commissioners, instead of political ministers.

There is still a good deal of politics in the railways, however. For example, the lower house of the New South Wales parliament recently, just after the chief commissioner had started on a long inspection trip, suddenly passed a bill to create a special board to supervise the work of double-tracking some of the main lines. The chief commissioner, as soon as he heard of this, entered vigorous protest against it on the ground that it violated the principle of independent management. As a result of the adoption of the system of independent management, — which, however, is temporary, because it is in constant danger of political attack, — the financial results of the railways have been better in recent years than formerly, when they commonly did not earn enough net money to pay the interest on the investment. In all Australia the net profit, after the payment of interest, averaged during the last six years \$244 per mile per year; while the railways of the United States during the same period have paid \$386 per mile per year in taxes, or almost 60 per cent more. In 1911, the most prosperous year in the history of the Australian lines, their net profits, after payment of interest, — in other words, the net money which actually could be used for the public benefit, — amounted to the unprecedented sum of \$7,000,000. This was \$446 per mile, which, by an odd coincidence, is exactly the amount per mile which the railways of the United States paid in taxes in the same year.

In other words, the governments and public of the United States derived just as much direct financial benefit per mile from the railways of this country under private ownership, as did the Australian public from its railways, under public ownership, in the most prosperous year in the Australian railways' history.

What, now, of the result to shippers, travelers and wage-earners? In New South Wales, which, next to Queensland, has the largest mileage in Australia, and where very full figures regarding rates and wages are published, the average rate per passenger per mile in 1911 was 1.17 cents, as compared with 1.93 cents in the United States, and the average rate per ton per mile was 18.2 mills, as compared with 7.53 mills in the United States. The average railway wages per year paid in New South Wales were \$558, as compared with \$673 in the United States. In other words, on the average, a day's railway wages in the United States will buy three fourths as much passenger transportation, and three times as much freight transportation, as a day's railway wages in New South Wales.

## IV

The French government for thirty-five years has owned and operated a railway having 1860 miles of line. A few years ago it acquired also the Western Railway, having about 3700 miles of line, one of the large systems that had been operated by private companies. The results are remarkable and instructive. In the last year of operation by the company (1908) the gross earnings of the Western were \$43,520,000, and its operating expenses \$29,700,000, its net earnings being \$13,820,000, and the ratio of its operating expenses to its gross earnings 68 per cent. After two years of public management its gross earnings had increased (in 1910) to \$45,920,000, and its operating expenses to \$41,180,000 — a rise of 38 per cent in the latter; its net earnings had decreased to \$4,740,000 — a decline of almost 66 per cent — and its operating ratio had risen to 89 per cent. Complete figures for 1911 are not available at this writ-

ing, but it is expected that, when they are made up, they will show a still further heavy increase in expenses, increase in the operating ratio, and reduction of net earnings.

The reduction in the net earnings and increase in the operating ratio were in no degree due to changes in the freight and passenger rates charged. The government made no reduction in them. Some of the defenders of the government's management have sought to show that the lines were in bad shape when turned over to it by the company, and that the enormous increase in operating expenses has been caused by expenditures to put the lines in suitable condition. M. Colson, director of roads and bridges in France, — a government officer, — who knows more about railway transportation in France than any other man, has shown in an article in the *Bulletin of the International Railway Congress* that this contention is fictitious. Nor is the change due to improvements in the service. No additions to the number of trains have been made, irregularities in their running have increased, and the government has in many cases lengthened their schedules. There has been an increase in the number of bad accidents, and a very large advance in the claims for damages presented and paid.

The main causes of the heavy augmentation of expenses have been that the government dismissed the experienced officers who had been employed by the company and filled their places with men both less experienced and less capable; that, following a severe strike, it raised the wages of the employees without, however, getting any more loyal and efficient work from them; and that it has also largely increased the number of employees. The last-named has been the principal influence. The increase in the number of employees has added three times as much to

expenses as has the increase in their wages. Under the management of the company there were, for example, only 1526 employees at the central administration and at the central motive power and traffic departments. This number has been increased by the government to 2587. There have been large additions not only to the number of employees, but also to the personnel of the official class.

However, the causes of the increases in expenses mentioned are secondary. They are all themselves effects of a single primary cause, and that cause is the influence of politics. France, formerly a monarchical and administrative country, has now become a legislative country; and the government, in the management of the Western Railway, has been influenced less by a desire to get good results on the railway than by a desire to get support in the Chamber of Deputies and at the polls. Meantime, the net earnings are insufficient to meet the interest on the capital cost of the railway, and the taxpayers of France must make good the deficit which is growing greater every year.

If things go on as they have been going, the Western Railway will soon be in the same plight as another good-sized railway which is owned and operated by the government of a virtually democratic country. The Intercolonial, owned by the Dominion of Canada, seldom earns enough to pay its operating expenses, to say nothing of interest on the large investment in it. In 1909 its expenses exceeded its earnings by \$449,535. Interest on the total investment at  $3\frac{1}{2}$  per cent was \$3,080,244, which, added to the deficit from operation, made a total loss of \$3,529,779, which the tax-payers had to make good. In 1910 it earned \$281,877 more than its operating expenses, but as interest at  $3\frac{1}{2}$  per cent on its capital cost was

\$3,252,814, it really incurred a net loss of \$2,970,937, which the taxpayers suffered.

Each political party, when it is out of office, charges that these poor results are largely due to the use of the railway for political purposes by the party in office; and the charge, whether made against one party or the other, seems to be true. It has been repeatedly alleged that the administration, whether of one political complexion or the other, usually largely increases the number on the pay-roll when an election is approaching. While the state-owned railways of France and of Canada have been getting such poor results the privately-managed railways of both countries — while confronted, like the railways of all other countries of the world, with increasing wages and costs of materials — have been keeping their expenses within reasonable bounds and fairly maintaining their net earnings.

## v

It may be hardly fair to cite the railways of Italy as an example of the results of government ownership, for they have been an operating and financial failure under both private and public management. Certainly, however, the most enthusiastic advocate of government ownership would not cite their results as an argument for his cause. Within three years after the government in 1905 assumed the operation of the Italian lines the number of employees was increased from 97,000 to 137,000, and this was not accompanied by any increase in efficiency. The opposite seemed to be the case.

Under government management in Switzerland, rates have been reduced, wages have been increased, and the service given has been more or less good. It is a disputed point, however, whether financially the roads have

been profitable, and the rates charged are still much higher, and the wages paid still much lower, than those on the railways of the United States. However, results gained in a compact country having only 3034 miles of railway, can hardly yield any very strong arguments either for or against the adoption of government ownership in the United States.

In Austria, where the state operates about 8500 miles of line, the wages paid are somewhat lower, and the rates charged somewhat higher, than in Germany, while the government has to make good from taxes a deficit of about \$25,000,000 a year. Before the government a few years ago took it over, the Northern Railway of Austria was paying 6 per cent dividends. M. Pattai, president of the Austrian Chamber of Deputies, and a friend of government ownership, in a public address, said in the summer of 1910: —

‘We are still in favor of the principle, but it does seem to us that our government has performed a remarkable feat when it has succeeded in creating a deficit on the Northern Railway. The government has enlisted an army of new employees. They have gone much too far in the reduction of hours of labor. Instead of commercial management, they have appointed lawyers to posts that required business men or experts. They have established an entirely impracticable bureaucracy.’

## VI

We can get some data regarding the results of public ownership and operation without going abroad. The government of the United States about six years ago acquired the Panama Railroad and the steamship line owned by it, and has since operated them. During the last ten years of private ownership the ratio of the operating

expenses to the gross earnings of the company was never more than 66 per cent, and during the last year of private management, 1904, it was less than 63 per cent; I include the figures for the steamship lines as well as for the railway. Immediately after government acquisition the operating ratio began to increase. In 1905 it was 77.4; in 1906, 79.54; in 1908, 74.49; in 1910, 71.4; and in 1911, 71 per cent. If this bad showing had been made when gross earnings were declining, it would have been understandable, but, while the gross earnings meantime had increased from \$3,267,859 to \$6,009,555, or 84 per cent, operating expenses increased from \$2,024,181 to \$4,257,038, or 110 per cent.

The gross earnings of the Panama Railroad under government management were, in 1911, over \$80,000 per mile, while the gross earnings of the railways of the United States were but \$11,553 per mile. The operating expenses of the Panama Railroad were almost \$50,000 per mile while those of the railways of the United States were less than \$7700. In other words, the earnings and operating expenses per mile of the Panama Railroad under government management were each about seven times as much as those of the railways of the United States under private management, although the freight traffic handled by the Panama Railroad per mile was only slightly greater than that handled per mile by the railways of the United States. Its passenger traffic, however, was about four times as great per mile as was that of the railways of the United States. Its net earnings were almost \$31,000 a mile, while the net earnings of the railways of the United States in the fiscal year 1910 were less than \$3900 a mile.

The explanation of the large gross and net earnings of the Panama Rail-

road is to be found in the high freight rates that it charges. Its average rate per ton per mile on commercial freight is seven cents, or nearly ten times the average ton-mile rate that the railways of the United States are permitted to charge; while the rate it charges the Isthmian Canal Commission is only about two cents per ton per mile. Its average rate on all freight is 4.14 cents, or about five and one half times as much as the average rate of 7.53 mills on the railways of the United States. Despite these facts, the Panama Railroad actually made some advances in its freight rates in the autumn of 1911.

The government has been reconstructing the Panama Railroad, and it is interesting to compare the cost of this work with some things that have been said about the cost of construction and the capitalization of the railways of the United States. Very recently a prominent business man made the statement in a magazine article that the upset cost of railway construction under modern conditions is \$50,000 per mile, denounced the capitalization of the railways of the United States (amounting to less than \$63,000 a mile) as exorbitant, and advocated government ownership as a remedy for alleged evils growing out of over-capitalization. Now, the official figures introduced at hearings on the Canal Zone in December, 1911, before the committee of the House of Representatives on Interstate and Foreign Commerce, show that up to that time the cost of reconstructing the government-owned Panama Railroad had been \$167,000 per mile, and it was officially estimated that the total cost of reconstruction of this line would amount to \$226,190 per mile. It is true that the work was done under peculiar conditions which necessarily made it very expensive, but, on the other hand, the figures given include no outlay for right of

way, which is often one of the largest items in the cost of railways in the United States, and nothing for large terminals in great cities, for land for which the railways of the United States sometimes have to pay as much as \$1,000,000 per acre.

## VII

The adoption of public ownership would be a political and economic change of the greatest magnitude and importance, and the burden of demonstrating, by a clear preponderance of the evidence and convincing logic, that the result would be of public benefit rests on those who favor the new policy. They have not shown this, nor do I believe they can. They claim that under government ownership wages would be higher, rates would be lower, service would be better, and the profits from the railways could be applied in mitigation of public taxation, but the evidence shows that under private ownership the wages paid by the railways of the United States are the highest in the world, that the rates charged by them are the lowest in the world, that the service rendered by them is as good as any rendered in the world, and that the taxes paid by them into the public treasury exceed the net profits, after interest, paid into the public treasury by any state-owned railway system in the world. This combination of facts seems to demonstrate that our railways, under private ownership, are the most efficiently managed, *in the interest of the public*, in the world. What good reason is there for believing that public management here would be more efficient than private management, when the latter is, in this country, more efficient from a public standpoint than public management is anywhere in the world?

I am aware that a very plausible

theoretical argument can be made to show that considerable economies could be effected under government management; but the inherent and apparently, to a large extent, incurable shortcomings of public management cause actual wastes, wherever government ownership obtains, that greatly exceed these theoretical economies, and it is chiefly due to this that most state-owned railway systems, instead of yielding a profit to the public, usually earn less than the interest on the investment in them, and the difference has to be paid from taxes, — public ownership thus increasing instead of diminishing the burden of taxation.

One argument advanced is that the rates fixed under private ownership are unfairly discriminatory, and that we must change to public ownership to correct this evil. But there are now stringent laws in the United States forbidding unfair discriminations, and the Interstate Commerce Commission is so enforcing these laws as to correct these discriminations as fast as they could be corrected under government ownership.

Again, it is said that the government ought to require the railways to remove the influence now exerted on political and governmental affairs by railway corporations. The fact is, however, that developments of recent years have practically annihilated the political influence of railways in this country, while under government ownership the efforts of political parties to win votes often cause them to make and to carry out promises for the fixing of rates, the building of extensions, and, especially, for the increase of the wages and of the numbers of railway employees, in practical disregard of the interests of the general public, which alone should have any weight in the administration of state railways. The country where the influence of politics on state rail-

way management seems to be the smallest is Germany, and the reasons for this have already been shown. Nevertheless, Professor Hugo R. Meyer, in his book entitled *Government Regulation of Railway Rates*, published some years ago, demonstrated with the greatest copiousness of illustration that while partisan politics does not affect railway management in Germany, the adjustments of rates are largely determined by sectional struggles and, as a result, are ill-adapted to commercial and industrial needs.

On the whole, it seems to me — looking at the matter as an American citizen rather than as an American railway man — that the argument against government ownership of railways in this country is overwhelmingly conclusive. The evidence that I have cited (and much more of the same kind could be introduced) indicates that public ownership would tend to increase rather than to reduce the cost of operation; that it would tend to make rates more inelastic and thereby injure commerce; that it would lead to efforts by the political parties to use the railways and their employees for political purposes, which would result in the railways and politics mutually corrupting each other.

But I realize that political action is often not determined by the statement and analysis of facts, and that our future railway policy may not be so determined. It is unfortunately true that the managements of our railways, by various mistakes of both omission and commission, have lost the confidence of the public; that many leaders of public thought, from motives sometimes good and sometimes otherwise, have fanned the popular feeling against them; that in consequence a system of regulation which unduly interferes with management and limits profits has been adopted; and that this

combination of circumstances may hurry us into government ownership unless some alternative plan be adopted to prevent it.

Some acute observers who have detected the drift of things have advocated different plans to secure satisfactory results under private ownership for both stockholders and public, and at the same time save us from government ownership. One scheme that has been suggested is that the railways be allowed so to adjust their rates that each can earn a fair return, say 6 or 7 per cent, on a fair valuation, and that all earnings in excess of this be divided between the railway company and the public, the public's share being paid into the government treasuries as taxes.

This plan has marked advantages over that of limiting all railways to the same maximum return. If every railway, whether well or ill managed, were restricted to the same return, there would be no incentive to good management, while allowing the better conducted roads to earn and pay dividends substantially exceeding the average would give an incentive to good management of all railways. The adoption of this scheme might tend to keep up rates, because each reduction in them would reduce the public's, as well as the railway's, share of the net earnings, but I cannot agree that shippers and travelers are entitled to receive in the form of reductions in rates all the benefit of increases in the efficiency of railway operation.

Another plan that has been outlined and advocated with ability by W. W. Cook, the eminent authority on the law of corporations, is that there shall be organized by the federal government a great holding company, on whose stock the government would guarantee a return of three per cent, and which would acquire a controlling



part, or all, of the securities of all the railways. The first board of directors would be appointed by the President and confirmed by the Senate of the United States, and its members would appoint their own successors. Mr. Cook contends that this scheme would have many advantages over either the present policy of private ownership and government regulation, or government ownership. It would, he says, remove the railways from the influence of Wall Street without subjecting them to such political influences as probably would dominate them under government ownership. He assumes that the directors of the holding company would retain the present officers of the various lines, who have been chosen because of their experience and skill in railway affairs, and that, therefore, the roads would be as efficiently managed as they are now, and would be more efficiently managed than if government ownership were adopted and they were turned over to political appointees.

It seems probable that the first, and almost certain that the succeeding, directors of the proposed holding company would be chosen for political reasons, and that they would be influenced by like considerations in appointing the officers of the railways. Furthermore, the concentration of the control of all of the railways in the United States in the hands of a single holding company would cause a concentration upon it of the demands of all interests and sections for readjustments of passenger rates, freight rates, and wages, and for the provision of additional facilities and the construction of new lines, which the holding company would be unable to meet; and the resulting public dissatisfaction probably would soon lead to the substitution of government ownership.

A short time ago I suggested that it might be desirable for the government

to acquire from twenty-five to forty per cent of the stock of the railways, with proper representation on each board of directors, so that it would become the partner of the present owners, sharing in their profits, and also in their losses, if any. This plan would have the advantage of causing government officials to look at the railway business from the standpoint of the owner as well as from that of the traveler, the shipper, and the wage-earner.

Under present conditions there is a strong tendency for public officials to regard themselves as the champions of all other classes, against the owners; and therefore, in spite of all the railway managers can do, wages and the other expenses of operation increase faster than gross earnings; net earnings are so small as to offer insufficient attraction to investors; the new facilities provided in recent years have been inadequate; and it is certain that any large and sudden increase of traffic will find the railways unable to cope with it. If the government were a stockholder and had representatives on the boards of directors, whatever affected net earnings would affect the stock of the government as well as that of private individuals, and the public, and public authorities, would be better able to appreciate the railways' financial needs than they are now.

Undoubtedly the best course will be to leave the ownership of the railways entirely in private hands and follow a policy of firm but *wise* regulation. We have not succeeded yet in working out and adopting such a policy. Most of the legislation for the regulation of railways has been conceived in prejudice, or drafted in ignorance. It used to be contended that certain forms of government regulation must be adopted as alternatives to government ownership. It is to be

feared that they may prove to be precursors and causes of, rather than alternatives to, government ownership. But if the public and public men will but give the subject the intelligent, fair, serious consideration it demands, the fatal plunge into public ownership may be avoided.

Fair and intelligent consideration would result in the concentration of authority over the railways in the hands of the Interstate Commerce Commission and the abolition or subordination to the Interstate Commission of the numerous state commissions, with their multitudinous, conflicting, vexatious, and costly requirements. It would result in the appointment of well-paid experts and scientists, both to membership on the commissions, and to the various important and responsible positions under them. It would result in public authorities ceasing to try to substitute themselves for the managers of the railways, and becoming content to perform their proper duty of holding the managers responsible for the effects of their management on the public interests. It would result in no diminution of the efforts, growing every day more successful, to suppress all forms of unfair dis-

crimination by railways; but it would result in a diminution of the incessant and successful efforts to hold down railway profits — efforts which are repelling capital from the railway business, and, by preventing adequate increases of facilities, imperiling the welfare of every manufacturer, every merchant, every farmer, every wage-earner, in the country. One thing is certain, and that is that we cannot long continue to muddle along as we are doing now. W. M. Acworth, the eminent English authority on railway affairs, after a visit to this country, said in an article published last autumn in the *Bulletin of the International Railway Congress*: —

‘If I have an individual belief it is that the United States will get much nearer to the brink of nationalization than they have come at present, and will then start back on the edge of the precipice, and escape by some road not yet discernible.’

The best road by which we may escape is a conservative, wise, just policy of regulation; and the most vital question of our time is whether the people of the United States will be just, wise, and conservative enough to take that road.



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